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Impact of COVID-19 *on* Indian MSMEs: Bringing them Back on Track

An MVIRDC Research Initiative

June, 2020





Bharat Ratna Sir M. Visvesvaraya
(15 September, 1860 - 14 April, 1962)

FIFTY YEARS AND COUNTING

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MVIRDC became a member of the World Trade Centers Association, New York, in 1971 and established the World Trade Center Mumbai, which is the first World Trade Center in India. MVIRDC, having spearheaded the movement of World Trade Centers in India with the establishment of WTCs at Bhubaneswar, Goa and Jaipur, is assisting MSMEs in these regions through various Trade Research, Trade Promotion, Trade Infrastructure including Commercial Offices, Business Center, Trade Facilitation Services and Trade Education Programmes.

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Foreword

The COVID-19 pandemic has not just been a health crisis but created havoc in the economic welfare globally. Governments around the world have been battling this unprecedented crisis and have taken measures to prevent the spread of the virus. It has affected the core of every economic activity - trade, investment, growth, development and employment. The effects of the pandemic vary from person-to-person and business-to-business. MSMEs, are the backbones of all economies, have been most vulnerable from this crisis. Subsequent lockdowns have devastated their operation and have led to bankruptcy, fall in production and online purchases, loss of jobs and incomes.

In the light of this unprecedented event, I am delighted to know that MVIRDC World Trade Center Mumbai has brought out a research study on 'Impact of COVID-19 on MSMEs: Bringing them Back on Track'. In this study, MSMEs and other allied bodies have presented their perspectives, shared experiences and evidence through a survey which has been well documented. While the study has suggested areas where there is need for more policy and economic measures for survival and revival, it has also elaborated on measures which need to be tightened or replaced. The findings in the study will strengthen the understanding of challenges faced and to look beyond the immediate crisis response, as businesses look to the future.

In these circumstances, the Government of India announced Rs 3-lakh crore Emergency Credit Line Guarantee Scheme (ECLGS) for the MSME sector that were adversely impacted by coronavirus-induced lockdown. In addition, Rs. 20,000 crore subordinate debt for stressed MSMEs, Rs. 50,000 crore equity infusion for MSMEs through fund of funds and no global tendering upto Rs. 200 crore were also rolled out with a view to providing relief measures and making the Indian economy Atmanirbhar or 'Self-reliant' in the long run.

As India gears up to the 'new normal', Indian MSMEs will have to learn to get resilient, go digital and make businesses inclusive and sustainable. They have the potential to be global champions in a number of sectors and capture the emerging opportunities arising from shift in global value chains.

I am confident that this study will inspire MSMEs to look beyond the crisis and capture opportunities arising from the current circumstances.

I also hope the information revealed in the study will be a useful reference for policymakers, MSME-research organisations, trade bodies, and other stakeholders on risks brought by pandemic-related contingency to MSMEs and ways to predict and better prepare in early stage of business planning, decision-making and further to specify countermeasures.

I strongly feel that the study will stimulate public discussion on this subject and shape the future course of policy actions for the MSME sector.


(Alka Arora)

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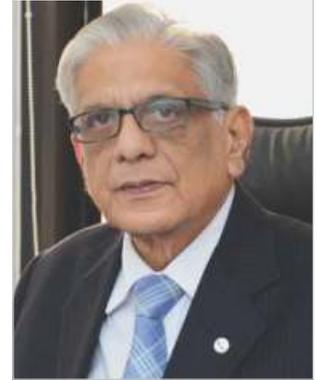
Contents

■ Foreword	3
■ Preface	5
■ MSMEs in India	6
■ Introduction to Research Study	11
■ Challenges	12
■ Opportunities	21
■ Recommendations	25
■ Conclusion	29
■ Acknowledgement	30



Preface

The outbreak of coronavirus has severely impacted national and global economies. All businesses are facing different issues with varying degree of losses. The problems are multifold - decrease in demand, supply chain disruptions, cancelation of export orders, raw material shortage, besides, labour shortage. Undoubtedly, enterprises across the globe continue to experience significant impact of the pandemic on their businesses, as lockdowns are being called off in a graded manner. Major victims of the virus outbreak are micro, small, medium-sized enterprises (MSMEs) and in comparison to large enterprises, usually do not possess sufficient resources, especially financial, managerial and legal, and are not prepared for such calamities that has unexpectedly prolonged. Additionally, these firms are highly dependent on daily business transactions and generally cater to a small number of customers.



In the Indian context, COVID-19 pandemic struck MSMEs at a time when they are struggling to adapt to the after effects of Goods and Services Tax (GST) implementation and demonetisation.

MSMEs are the backbone of all economies worldwide providing income and employment generation to a large number of people around the globe. India has approximately seven crore MSMEs contributing 29% to GDP and about 50% to the export basket. They provide employment to 12 crore people and produce 8000 varieties of products which are labour intensive in nature. They have the potential to be global champions in sectors such as leather, textile, handicrafts, if the challenges they face are addressed.

At a recently held webinar organised by MVIRDC World Trade Center Mumbai, Dr. Mukisa Kituyi, Secretary-General of United Nations Conference on Trade and Development (UNCTAD) raised hope that Indian MSMEs are resilient enough to recover from the current pandemic crisis.

It was on May 13, 2020, that Finance Minister Nirmala Sitharaman, announced the first set of details of Rs 20 lakh crore relief package, after Prime Minister Narendra Modi unveiled Atmanirbhar Bharat initiative, to revive the Indian economy. A total of 15 measures were announced. Six were for Micro, Small and Medium Enterprises (MSMEs).

In view of the above, MVIRDC World Trade Center Mumbai prepared this research study titled 'Impact of COVID-19 on MSMEs: Bringing them Back on Track' based on a survey, to investigate the effects of the pandemic on MSMEs and to what extent the relief package helped them survive and revive. The study was aimed at providing actionable policy recommendations to policymakers and practitioners based on the perspectives from participants, in identifying strategies required to respond to the impact of the ongoing pandemic on MSMEs.

Based on the findings, I strongly feel that the pandemic has brought in its wake a number of emerging opportunities. MSMEs must reboot their business model and benefit from them. They need to adopt and adapt to digital technologies and capture these opportunities arising from the shift in global value chains.

I am thankful to MSMEs and all stakeholders who participated in the survey and shared their perspectives and insights on the subject and enriched the content of the study.

I am confident that the findings in this study will serve as a ready reckoner and spur further debate among decision makers, financial institutions, MSME research-based institutions, export promotion agencies and all stakeholders in contributing to MSME growth during these unprecedented times and help them in getting back on track.

Y. R. Warerkar

Director General